ASC
ACCOUNTING STANDARDS COUNCIL
SINGAPORE

25 March 2022

Dr Andreas Barckow
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(By online submission)

Dear Andreas

RESPONSE TO EXPOSURE DRAFT ON SUPPLIER FINANCE ARRANGEMENTS (PROPOSED AMENDMENTS TO IAS 7 AND IFRS 7)

The Singapore Accounting Standards Council welcomes the opportunity to comment on the Exposure Draft on *Supplier Finance Arrangements* (Proposed amendments to IAS 7 and IFRS 7) (the ED) issued by the International Accounting Standards Board (the IASB or the Board) in November 2021.

We appreciate the IASB's efforts in addressing the information needs of users of financial statements (users) with respect to supplier finance arrangements (SFAs). We recognised that there is a need to improve the transparency of information provided in financial statements about such arrangements so as to enable users to assess their effects on an entity's liabilities, cash flows, exposure to liquidity risk, and risk management.

Our comments on the ED are as follows:

Question 1—Scope of disclosure requirements
The [Draft] Amendments to IAS 7 and IFRS 7 do not propose to define supplier finance arrangements. Instead, paragraph 44G of the [Draft] Amendments to IAS 7 describes the characteristics of an arrangement for which an entity would be required to provide the information proposed in this Exposure Draft. Paragraph 44G also sets out examples of the different forms of such arrangements that would be within the scope of the Board's proposals. Paragraphs BC5–BC11 of the Basis for Conclusions explain the Board's rationale for this proposal.

Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you suggest instead and why.

We are supportive of the proposal to describe the characteristics of an arrangement that would be within the scope of the proposed disclosure requirements, rather than to define SFAs. Such an approach has the benefit of focusing on the substance of the arrangements, beyond how those arrangements are structured or labelled.

However, we have the following observations:

Arrangements that do not have an effect on an entity's liabilities or cash flows

We note that the proposed scope would include arrangements that do not provide any extension of payment terms to an entity, whether through the finance providers or the suppliers, and therefore, have no effect on the entity's liabilities or cash flows.

Yet, the proposed disclosure objective would require an entity to disclose information that enables users to assess the effects of SFAs on the entity's liabilities and cash flows, which does not appear to be relevant to the aforesaid arrangements.

We believe that further clarification from the IASB would be useful.

Arrangements other than those intended by the IASB

We think that, as drafted, there is a risk that the proposed description could be interpreted more widely than intended by the IASB.

For example, an arrangement in which an entity's supplier factors its receivables with a finance provider and the entity agrees to make payment to the finance provider, instead of the supplier, on the invoice payment due date (i.e. receivables factoring) could be deemed to meet the proposed description 'one or more finance providers offering to pay amounts an entity owes its suppliers and the entity agreeing to pay the finance providers at a date later than suppliers are paid'.

We suggest that the IASB considers refining the proposed description to ensure that it captures only those arrangements that are intended to be within the scope of the proposed disclosure requirements.

Question 2—Disclosure objective and disclosure requirements
Paragraph 44F of the [Draft] Amendments to IAS 7 would require an entity to disclose information in the notes about supplier finance arrangements that enables users of financial statements to assess the effects of those arrangements on an entity's liabilities and cash flows. To meet that objective, paragraph 44H of the [Draft] Amendments to IAS 7 proposes to require an entity to disclose:

(a) The terms and conditions of each arrangement;

(b) For each arrangement, as at the beginning and end of the reporting period:

   (i) The carrying amount of financial liabilities recognised in the entity's statement of financial position that are part of the arrangement and the line item(s) in which those financial liabilities are presented;

   (ii) The carrying amount of financial liabilities disclosed under (i) for which suppliers have already received payment from the finance providers; and

   (iii) The range of payment due dates of financial liabilities disclosed under (i); and

(c) As at the beginning and end of the reporting period, the range of payment due dates of trade payables that are not part of a supplier finance arrangement.

Paragraph 44I would permit an entity to aggregate this information for different arrangements only when the terms and conditions of the arrangements are similar.

Paragraphs BC12–BC15 and BC17–BC20 of the Basis for Conclusions explain the Board's rationale for this proposal.

Do you agree with this proposal? Why or why not? If you agree with only parts of the proposal, please specify what you agree and disagree with. If you disagree with the proposal (or parts of it), please explain what you suggest instead and why.

Subject to our comments below, we are generally supportive of the proposed disclosure requirements.

<u>Proposed paragraph 44H(b)(i)—Financial liabilities that are part of SFAs (financial liabilities-SFA) and the line item(s) in the statement of financial position in which they are presented</u>

We note that an entity may present financial liabilities-SFAs in different line items in its statement of financial position. Therefore, to facilitate users' analyses, the IASB should refine proposed paragraph 44H(b)(i) to make it clear that an entity is required to disclose the carrying amount of financial liabilities-SFAs that is included in each of those line items.

<u>Proposed paragraph 44H(b)(ii)—Financial liabilities-SFAs for which suppliers have already received payment from the finance providers</u>

We appreciate the IASB's explanation in paragraph BC19(a) of the Basis for Conclusions on the ED (the BC) that any restrictions on the information finance providers could provide would unlikely prevent the finance providers from providing the information in proposed paragraph 44H(b)(ii) on an aggregated and anonymised basis.

However, we understand that in situations where an entity has a limited number of suppliers, finance providers may be prevented from providing or less willing to provide the aforesaid information, even on an aggregated and anonymised basis.

Depending on the feedback received on the ED, the IASB may need to perform additional analysis before finalising the proposed disclosure.

Proposed paragraph 44H(c)—Payment due dates of trade payables that are not part of SFAs

We understand that an entity may use SFAs for certain, but not all, of its lines of business. In such situations, information about the payment due dates of trade payables that relate to lines of business where SFAs are not used would be irrelevant, and if included in the disclosure to be provided under proposed paragraph 44H(c), could disrupt users' analyses of the effects of SFAs on an entity's liabilities and cash flows.

We suggest that the IASB refines proposed paragraph 44H(c) accordingly.

Information about the extent of use of SFAs

We appreciate the IASB's explanation in paragraph BC14(e) of the BC that information about the extent to which an entity has (its suppliers have) used extended (early) payment terms (extent of use of SFAs) would help users understand the effect of SFAs on an entity's exposure to liquidity risk and how the entity might be affected if the arrangements were no longer available to it.

However, the proposed disclosure requirements, which focus on information at the beginning and end of the reporting period, may not provide sufficient information to allow users to determine the extent of use of SFAs during the reporting period. This is because information at the beginning and end of the reporting period would not, for example, take account of the seasonality of an entity's purchases of goods or services.

In this regard, we think that the IASB could consider requiring an entity to disclose a reconciliation between the carrying amounts of financial liabilities-SFAs at the beginning and end of the reporting period (or alternatively, the significant changes in those liabilities during the reporting period). Such a reconciliation would not only provide information about the extent of an entity's use of SFAs during the period, but also information about payments made during the period to settle those liabilities, which would enhance users' understanding of the cash flow effects of SFAs reported in the statement of cash flows.

Information about cash flows relating to financial liabilities-SFAs

We note that the proposed disclosure requirements focus mainly on items in the statement of financial position but not the statement of cash flows, notwithstanding that paragraph BC12(b) of the BC stipulates that without additional information, users find it difficult to identify operating and financing cash flows arising from SFAs.

Therefore, we suggest that the IASB considers whether an entity should also be required to disclose (i) the method used for presenting cash flows relating to financial liabilities-SFAs, (ii) the amount of those cash flows recognised, and (iii) the line item(s) in which they are presented, in the statement of cash flows. In particular, we understand that there is diversity in practice in respect of (i), which hinders users' comparison of financial statements.

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Question 3—Examples added to disclosure requirements
Paragraph 44B of the [Draft] Amendments to IAS 7 and paragraphs B11F and IG18 of the [Draft] Amendments to IFRS 7 propose to add supplier finance arrangements as an example within the requirements to disclose information about changes in liabilities arising from financing activities and about an entity's exposure to liquidity risk, respectively. Paragraphs BC16 and BC21–BC22 of the Basis for Conclusions explain the Board's rationale for this proposal. Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you suggest instead and why.

We are generally supportive of the proposal to add SFAs as an example within the disclosure requirements in IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments: Disclosures*.

We hope that our comments will contribute to the IASB's deliberation on the ED. Should you require any further clarification, please contact our project managers Yat Hwa Guan at Guan_Yat_Hwa@asc.gov.sg and Yu Shan Koo at Yu_Shan_Koo@asc.gov.sg.

Yours faithfully

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